



# The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Number 31

## BUILDING COSTS

For the third consecutive month the cost of building our standard six-room frame house has declined by a small amount. It seems probable now that the remainder of 1951 will see slightly sagging costs due primarily to the reduction in the volume of residential building. It now looks as if the volume of residential building during the last six months of 1951 will average only slightly higher than half of the volume for the corresponding months of 1950. Another factor that is certain to affect costs in the last part of the year is the fact that contractors will be more willing to accept work at a smaller profit margin than they were when more jobs were available.

## REAL ESTATE ACTIVITY

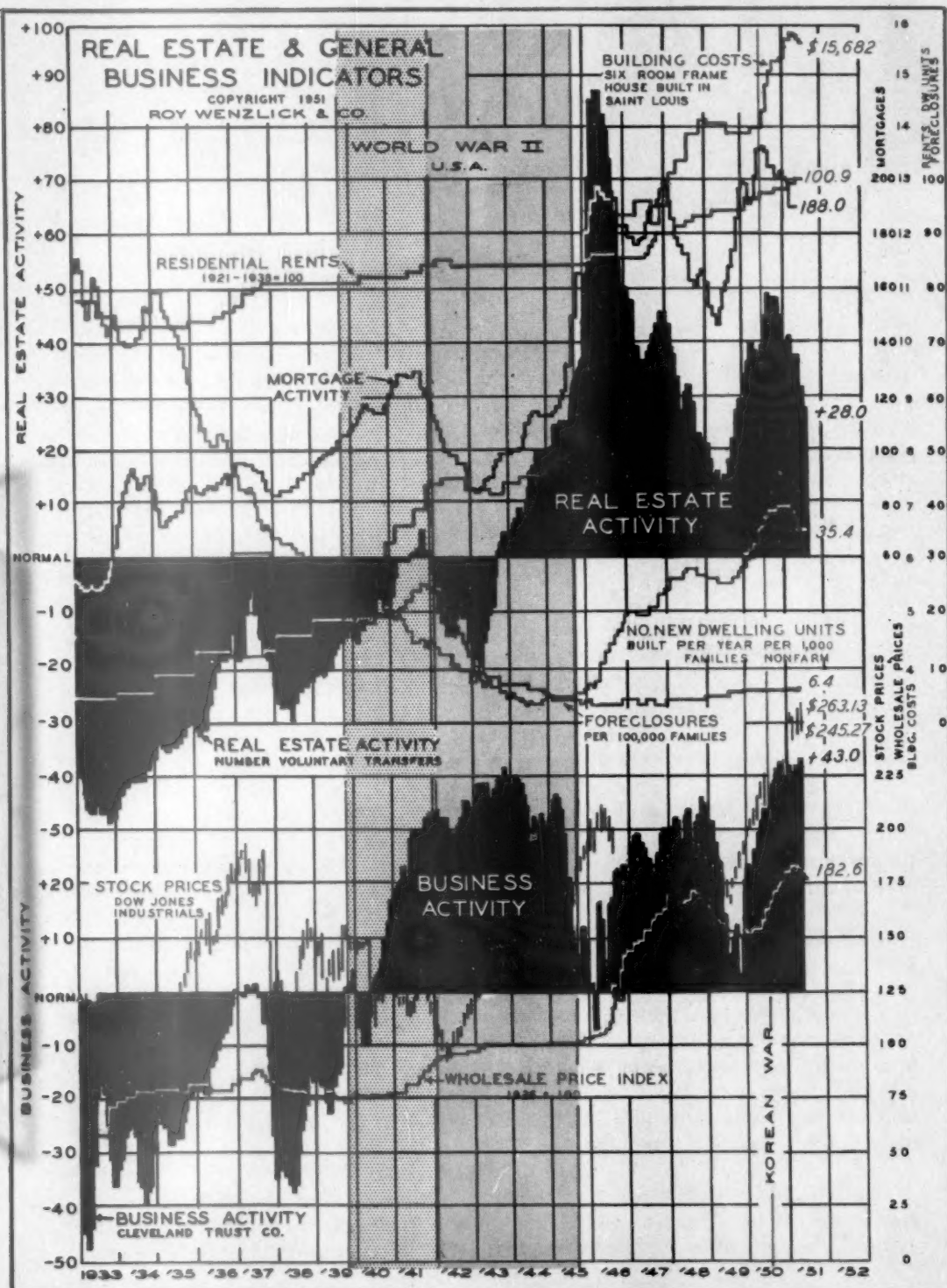
Last August real estate activity on a national basis hit a point 48.5% above our long-term computed normal. Since, it has dropped rather consistently month by month, until the current figure is 28% above the level of the late fall of 1949. It would not be surprising for this drop to continue, carrying real estate activity down considerably lower by the end of the year.

Regulation X on new building, coupled with the shortage of mortgage money and higher interest rates and the tighter credit policies of all mortgage lenders, is largely responsible for this drop in activity, and will be responsible for the further drop which will develop later in the year.

## MORTGAGE ACTIVITY

Section 708 of the Defense Production Act of 1950 authorized the President to encourage financing institutions to enter into voluntary agreements and programs which will further the objectives of that Act. By executive order the President delegated to the Board of Governors of the Federal Reserve System his authority with respect to financing under this section of the Act. A program for voluntary credit restraint has been developed by representatives of financing institutions and has been approved by the appropriate government officials as required under the Act.

On June 14 the Committee on Voluntary Credit Restraint released its recommendations to all financial institutions on the financing of real estate. In substance, the Committee has suggested that financial institutions follow the general  
(cont. on page 301)



(cont. from page 299)

al policies on existing one- to four-family units which Regulation X now imposes on new construction. On loans on existing multifamily units and on commercial property a limit of 66-2/3% of the fair value of the property is suggested. The Committee also urges an appropriate and substantial amortization of principal. No limitation has been suggested for industrial property.

#### NEW BUILDING

New urban residential building reached its highest volume, when corrected for seasonal influences, in January 1951, when we were building at a rate of 38.8 new family accommodations per year per 1000 nonfarm families. Since January, each succeeding month has shown a slight shrinkage, with the figures for 1951 being as follows: January, 38.8; February, 38.7; March, 38.1; April, 36.8; and May, 35.4. It is entirely possible that before the end of 1951 this seasonally corrected figure will drop to 20 or fewer new family accommodations per year per 1000 nonfarm families. This means that the drops during the remaining months will be at an accelerated rate.

#### BUILDING MATERIALS

The 20 charts on pages 302 and 303 in this report show changes in the rate of the production of building materials from 1945 to the present.

The top chart printed in red shows that on all types of building materials the production now is approximately 81% higher than it was in 1939. A study of the other 19 charts reveals some very interesting developments. Apparently, John L. Lewis has done such a splendid job as a salesman for oil and gas burners that the production of stokers has dropped to less than one-fifth of the level in 1939.

The second poorest showing is cast iron radiation, with production approximately 20% below the 1939 level. A comparison of this with the chart on warm air furnaces, now 160% above the 1939 level, dramatizes the switch from hot water to warm air in the heating of the average small residence.

Those items which are used primarily in single-family residence construction and which have not supplanted other materials or been supplanted by them show percentage increases as follows: brick, 22% increase; structural clay tile, 22.3% increase; lumber, 25.4% increase; and wire nails, 38.8% increase.

The largest increase of any of the building materials was for gypsum board, with a present production level 674% above the level of 1939. Many of the building materials listed on these charts are used for other than residential construction, and the increased production in such items might not be the result of either changes in building volume or in methods of construction. Cement would be a good example of a chart in this classification.

#### RESIDENTIAL RENTS

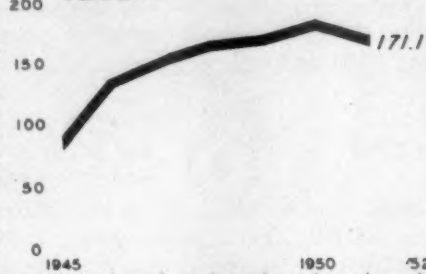
Since August 1944 the level of residential rents has crept up very slowly, rising only 4/10 of a point from then until February of 1947. Since  
(cont. on page 306)

# PRODUCTION OF BUILDING MATERIALS INDEX - 1939 = 100

COMPOSITE OF ALL MATERIALS  
SEASONALLY ADJUSTED



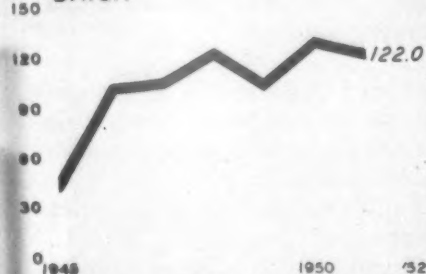
CEMENT



MECHANICAL



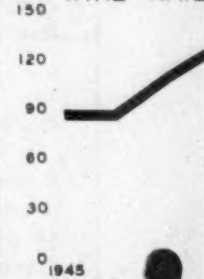
BRICK



LUMBER



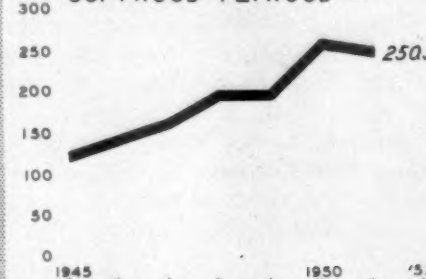
WIRE NAIL



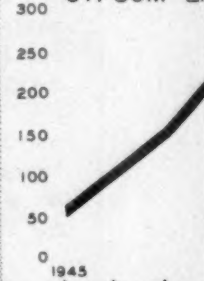
RIGID STEEL CONDUIT & FITTINGS



SOFTWOOD PLYWOOD



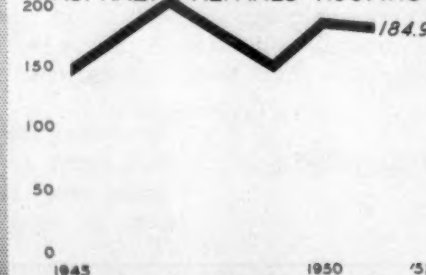
GYPSUM LATH



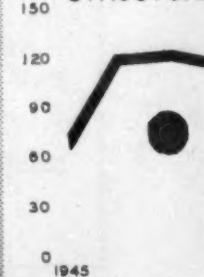
CAST IRON RADIATION \*



ASPHALT PREPARED ROOFING



STRUCTURAL





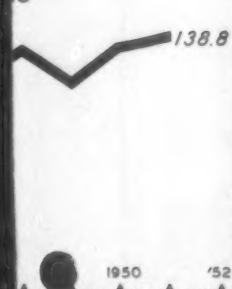
# BUILDING MATERIALS

1913=100-UNADJUSTED

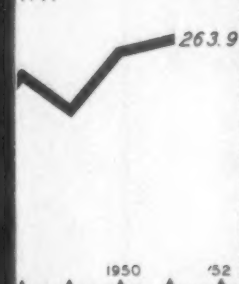
AL STOKERS



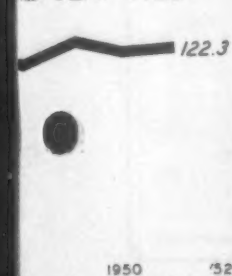
S



ATH



AL CLAY TILE



HARDWOOD FLOORING



FABRICATED STRUCTURAL STEEL



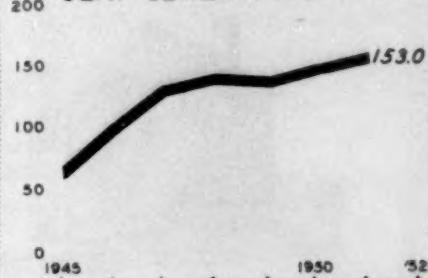
ASPHALT SIDING FELTS



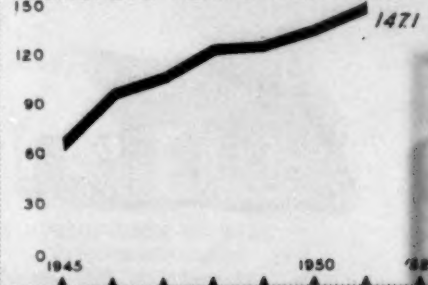
CAST IRON SOIL PIPE & FITTING



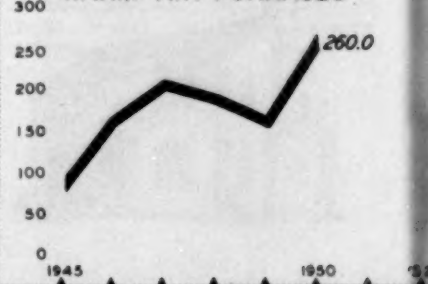
CLAY SEWER PIPE



CONCRETE REINFORCED BARS



WARM AIR FURNACES \*



GYPSUM BOARD



# INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)

June 1951



## SIX-ROOM BRICK HOUSE (FRAME INTERIOR)\*

Content: 23,100 cubic feet  
1,520 square feet

Cost 1939: \$ 6,400

(27.7¢ per cubic foot; \$ 4.21 per square foot)

Cost today: \$16,234

(70.3¢ per cubic foot; \$10.68 per square foot)

INCREASE OVER 1939 = 154%



## FIVE-ROOM BRICK VENEER HOUSE\*

Content: 24,910 cubic feet  
1,165 square feet

Cost 1939: \$ 5,440

(21.3¢ per cubic foot; \$ 4.67 per square foot)

Cost today: \$14,155

(56.8¢ per cubic foot; \$12.15 per square foot)

INCREASE OVER 1939 = 160%



## SIX-ROOM FRAME HOUSE\*

Content: 24,288 cubic feet  
1,650 square feet

Cost 1939: \$ 5,671

(23.4¢ per cubic foot; \$ 3.44 per square foot)

Cost today: \$15,682

(64.6¢ per cubic foot; \$ 9.50 per square foot)

INCREASE OVER 1939 = 177%



## 6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT

Content: 12,119 cubic feet  
992 square feet

Cost 1939: \$3,117

(25.6¢ per cubic foot; \$3.14 per square foot)

Cost today: \$8,384

(69.2¢ per cubic foot; \$8.45 per square foot)

INCREASE OVER 1939 = 169%

\*Costs include full basement.

# INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)

June 1951



## COMMERCIAL BUILDING - NO BASEMENT

Content: 115,850 cubic feet

8,075 square feet

Cost today: \$49,082

(42.4¢ per cubic foot; \$6.08 per square foot)



## 18-FAMILY BRICK APARTMENT (FRAME INTERIOR)\*

Content: 168,385 cubic feet

13,260 square feet

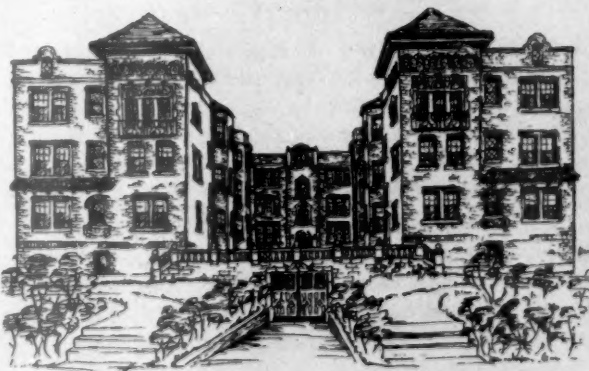
Cost 1939: \$ 60,300

(35.8¢ per cubic foot; \$ 4.55 per sq. ft.)

Cost today: \$154,842

(92.0¢ per cubic foot; \$11.68 per sq. ft.)

INCREASE OVER 1939 = 156.8%



## 30-UNIT REINFORCED CONCRETE APARTMENT\*

Content: 303,534 cubic feet

21,372 square feet

Cost 1939: \$135,000

(44.5¢ per cubic foot; \$ 6.33 per sq. ft.)

Cost today: \$327,953

(\$1.08 per cubic foot; \$15.34 per sq. ft.)

INCREASE OVER 1939 = 142.9%

\*Costs include full basement.

(cont. from page 301)

that time, however, the rise has been slightly greater, with an increase of approximately 7.5% in the general level. This increase will continue unless drastic legislation is enacted with roll-back provisions on residential rents. At the present time the rent level is approximately the average level of the 18-year period from 1921-1938. This period included nine good years and nine bad years for real estate, and is the approximate length of an average real estate cycle.

It should be kept in mind, however, when dealing with rents that we are dealing with a dollar figure and that the purchasing power of the dollar has changed markedly in relationship to the 1921-1938 average. Had rents increased by a sufficient amount to take care of the reduced purchasing power of the dollar, the rental index at the present time should be approximately 170 in place of 100.9.

#### FORECLOSURES

Urban foreclosures at the present time are running 6.4 per 100,000 families. This is a very low level, but it is more than twice the level of five years ago. We think that foreclosures will continue to creep up during 1951 and 1952, but at a very slow rate. The greater difficulties in financing will make existing loans financed at a low rate of interest and for a long period of years more attractive than new loans from the standpoint of the borrower, and it is certainly to his advantage if he can to keep his existing mortgage in good standing rather than to let it go by the boards and try again.

#### GENERAL BUSINESS

At the present time in the United States we are going through a readjustment period. During the winter and the early part of the year all elements in our business population accumulated inventories. Business, fearful of the price and supply outlook, tried to prepare itself against shortages. Individuals, remembering the rapid price increases which accompanied the last war, started a program of forward buying and stocked their linen closets, their shelves and their pantries to capacity. Shortages were anticipated in all types of electrical appliances and in automobiles and, accordingly, a great deal of forward buying was done in these fields, a considerable portion of it on a time payment basis. This brought an alarming increase in the amount of currency and credit outstanding in the United States, with a resulting rapid increase in prices.

Many months ago the Federal Reserve Board called for higher interest rates to stop the inflationary splurge, but could not get the backing of the Treasury or of the Administration. Now, many months too late, an agreement has been reached; government bonds have been unpegged and loans for irrational percentages of value will no longer be guaranteed or countenanced by the FHA and other government agencies. Time payment provisions under Regulation W and limitations of mortgage credit under Regulation X pulled the plug on the accumulated pressures and have brought about a mild period of deflation. Readjustments are taking place at the present time which will last for some months, but the government purchases of war materials for our rearmament program are certain to bring about a greater volume of general business activity this fall and winter, with additional pressure on the general price level.